

# The Interim Report of the Governor's Supplier Diversity Advisory Board



*"A small business really represents the dream come true of the owner. That individual has dared to take a risk and open up a small business. In so doing they employ their fellow citizens, add needed revenue to state and local coffers, and strengthen the fabric of their communities. We need a resurgence of this entrepreneurial spirit in the Commonwealth."*

-Governor Robert F. McDonnell

Commonwealth of Virginia

Secretary Lisa Hicks-Thomas, Chairwoman  
December 2010



# *COMMONWEALTH of VIRGINIA*

*Office of the Governor*

Lisa M. Hicks-Thomas  
Secretary of Administration

December 22, 2010

Dear Governor McDonnell,

I am pleased to submit for your review the interim report of the Governor's Supplier Diversity Advisory Board. This report includes recommendations adopted by the Board for your consideration. In your welcome address at our first meeting in August, you asked us to identify effective, legally sound strategies to eliminate the contracting disparity facing minority- and women-owned businesses in the Commonwealth. The results will allow us to take the first step on our continuing effort to achieve greater supplier diversity in Virginia.

The Advisory Board left no stone unturned. After five full Board meetings, dozens of subgroup meetings, and countless conversations with business owners, buyers, and citizens, we have reached these conclusions following careful thought and detailed analysis.

Thank you for articulating a vision for greater supplier diversity in the Commonwealth. I know you will join me in thanking the Board members and the many Virginia citizens who are assisting in this important effort.

Above all, the Supplier Diversity Advisory Board has been results-oriented. I believe employing the strategies outlined within will create jobs and opportunity in the Commonwealth. We look forward to continuing our work and implementing your adopted recommendations.

Sincerely,

A handwritten signature in black ink that reads "Lisa M. Hicks-Thomas".

Lisa Hicks-Thomas  
Secretary of Administration  
Chair, Supplier Diversity Advisory Board

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## **Interim Recommendations**

### **Ten Big Ideas**

1. Make Virginia the #1 place to start a small business in the United States.
2. Recognize that supplier diversity is an economic development tool.
3. Establish and foster a culture of supplier diversity in the Commonwealth.
4. Install and empower a Director of Supplier Diversity.
5. Declare an unequivocal statement of support for supplier diversity and distribute to all state agencies.
6. Demand strong, achievable aspirational goals and help agencies deliver results.
7. Strengthen and enforce contract compliance.
8. Utilize a standard tracking, reporting and goal-setting process.
9. Remove barriers to entry for diverse firms and simplify the process for buyers where possible.
10. Declare only one guarantee: opportunity to compete.

### **Certification**

- Study the definition of small business further.
- Recognize more third-party certifications.
- Create a more valuable certification process and experience.
- Require eVA registration as a necessary step to receive SWaM certification.
- Deliver a personalized, customized "yellow pages" to SWaMs displaying who buys what they sell.
- Communicate the new value-added proposition of certification to all end users.
- Integrate the certification process with Governor McDonnell's Business One-Stop initiative.
- Reform the recertification process.
- Deepen the relationship and continue communicating long after certification first occurs.
- Enter into shared agreements with the fourteen other states on the "block out" list as much as reasonably possible.
- Allow franchisees to earn SWaM certification.
- Champion and encourage greater private sector participation.
- Conduct organizational audit and review of DMBE practices.
- Consider promoting a Virginia procurement "access pass" in lieu of "SWaM" status.
- Consider focusing certification efforts exclusively for firms who want to do business with Virginia.
- Consider contracting certification authority to third-party entities.
- Consider allowing non-profit organizations to become certified.
- Consider allowing firms to receive multiple racial or gender group certifications.

## Interim Recommendations

### Marketing & Outreach

- Direct all state agencies to communicate an updated, comprehensive plan for achieving supplier diversity goals.
- Consider rebranding the Department of Minority Business Enterprise.
- Partner with private sector business leaders and CEOs to highlight successful best practices utilized by Virginia-based Fortune 500 firms.
- Refute long-held myths about MBE contracting.
- Publish electronic results from all state agency solicitations.
- Place a SWaM Declaration” in all state contracts.
- Build a diverse coalition of stakeholders to trumpet supplier diversity before elected officials.
- Develop an overarching initiative that will communicate and activate the procurement process for stakeholders.
- Facilitate finding MBEs by creating a clear vendor search engine.
- Strengthen the SWaM Champion program by creating buy-in all state agencies.
- Decentralize supplier diversity initiatives in order to bring efforts closer to the people.
- Build a comprehensive, authoritative, transparent dashboard for real-time spending data analysis.
- Promote greater mentor-protégé relationships for MBEs.
- Consider early payment incentives for prime contractors who engage in effective mentor-protégé relationships.
- Host educational opportunities for government purchasers demonstrating the importance of utilizing MBEs.
- Team with state agencies that host successful outreach programs.
- Create a Commonwealth-wide calendar for local outreach events to be shared by all state agencies.
- Encourage volunteer assistance from qualified professionals to assist SWaM startups.
- Demystify the procurement interface and vendor experience.

## Interim Recommendations

### Bonding & Capital Access

- Support legislation to raise the financial threshold for projects requiring bonding.
- Remove bonding requirements for all projects where the contract amount does not exceed \$1M.
- Market and augment value of construction and trades “prequalified” list.
- Analyze and reduce risk to the Commonwealth wherever possible.
- Explore several other considerations and take a systemic look at the bonding process.
- Tie capital access educational programs to certification.
- Align DMBE certification with VDBA training seminars for small business.
- Establish guidelines for tying certification with capital access training.
- Survey small businesses to target capital access educational efforts to those who need it most.
- Conduct job satisfaction analysis surveys following project completion.
- Enlist Construction Management firms in outreach for greater diverse supplier business development in construction.

### Procurement

- Use appropriate metrics.
- Measure success in absolute terms by dollars spent rather than on a percentage basis.
- Raise the small purchase threshold.
- Unbundle large state contracts.
- Conduct a spend analysis.
- Encourage greater diverse spend in previously underutilized fields.
- Modify how solicitations contracts are posted.
- Encourage greater use of competitive negotiation where allowed by law.
- Encourage public buyers to hold open office hours and seminar events for vendors.
- Conduct an analysis of future procurement opportunities.
- Consider issuing strong supplier diversity directives to state agencies.
- Maintain a crosswalk between national/federal/eVA/DMBE commodity codes.
- Consider offering opportunities exclusively for first-time bidders.

# **Supplier Diversity Advisory Board Members**

Secretary Lisa Hicks-Thomas, Chair

Delegate Kenneth Alexander

Delegate Ron Villanueva

John Biagas

A. Hugo Bowers

William Cooper

Julia Hammond

Marco Harris

W. Christopher Harvey

Cecil Hobbs

Tracey G. Jeter

Ken Johnson

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Rafael Lopez

Ida McPherson

Mary Guy Miller

Eddie Ramirez

Bob Sledd

Dona Storey

Peter Su

Mark Whitaker

Angela Wilkes

Michel Zajur

## **Staff**

Charles E. James, Sr.

Laura T. Jennings

Logan A. Pugh

## Introduction

Too few minority- and women-owned firms are ultimately awarded contract opportunities with the Commonwealth of Virginia. By increasing opportunity to compete and reducing obstacles facing small business; however, the steps outlined below will dramatically reduce the disparity in the Commonwealth.

The full Supplier Diversity Advisory Board (the “Board”) endorsed the following recommendations after consideration and approval by each relevant subgroup.

### Governor McDonnell sounded his call to action in the Board’s initial meeting:

- Improve and expand opportunities for *all* small businesses
- Simplify the process for SWaM firms to do business with the Commonwealth
- Open and increase access to capital and bonding for small businesses
- Ensure that SWaM businesses remain competitive on cost
- Solve problems in a creative fashion

The Board is organized into four subgroups charged with addressing obstacles in specific subject areas with general purposes:

- **Certification**  
Purpose: To build a better, more effective certification process for diverse firms and assist competitive businesses in entering the procurement marketplace.
- **Marketing & Outreach**  
Purpose: To ensure state agencies, SWaM firms, and legislators are aware and fully aligned with the Commonwealth’s procurement process and opportunities afforded by it.
- **Bonding & Capital Access**  
Purpose: To ensure diverse suppliers have access to the financial support that attracts procurement officers and prime contractors.
- **Procurement**  
Purpose: To enumerate the steps necessary to ensure the Commonwealth is utilizing diverse suppliers in perpetuity.

Effective public policy will amplify private sector small business efforts. Each recommendation functions in a system and leverages best practice models wherever possible. Success will require a cohesive and collaborative approach.



# Supplier diversity will create jobs in Virginia.

## 1. Minority- and women-owned businesses will spur IMMEDIATE economic growth.

### **Startups--businesses less than five years old--are the real job creators.**

- All net job increases occur among startups. New research demonstrates that it's not about size; it's all about age. "In healthy times, older companies of all sizes do create lots of jobs. But they also lose jobs, as some businesses shrink or vanish. On balance, job creation and destruction cancel each other."<sup>i</sup> *Federal Reserve*
- Over the past 20 years, startups less than two years old accounted for roughly 25% of gross job creation even though they employed less than 10 percent of the workforce.<sup>ii</sup> *Federal Reserve Chair Ben Bernanke*

### **Diverse Virginia firms are growing faster than other small and large firms.**

- In the last five years for which data is available, minority-owned Virginia businesses grew by 51.4 percent.<sup>iii</sup>
- African-American firms grew by 54 percent and Hispanic firms by 50.5 percent.
- Women-owned firms grew by 22.4 percent while male-owned firms only grew by 10.1 percent.
- More women created businesses from 2002-2007 than men.
- 1 in 7 small businesses in America are veteran-owned. *U.S. Census Bureau 2007 Survey of Business Owners*

### **Diverse firms continue to create jobs *even during recessions*.**

- "During the 2001 recession, employment at minority-owned firms nationwide increased by 4% while employment among non-minority firms declined by 7%."<sup>iv</sup> Without employment growth among minority-owned firms, the 2008-2009 recession would have been even worse. *U.S. Department of Commerce*

## 2. Diverse firms are the FUTURE of the Virginia economy.

### **Diverse suppliers will provide greater access to new U.S. and global markets.**

- Virginia-based MBEs with roots in different regions and countries will be better equipped to form connections with tomorrow's consumers in underserved communities and overseas markets.

### **Supplier diversity drives innovation and can reduce procurement costs.**

- A 2003 study determined that small businesses generate 13 to 14 times more patents per employee than large firms.<sup>v</sup> *CHI Research*
- A 2006 study found that companies that focus heavily on supplier diversity generate 133% greater return on the cost of procurement compared to average companies.<sup>vi</sup> *The Hackett Group*

### **Virginia's diverse firms are only beginning to grow.**

#### SWAM-Certified Businesses with <50 Employees

Minority	94%
Women	96%
Veteran	98%

## **Ten Big Ideas**

Successful supplier diversity business models institute a focus on minority- and women-owned firms into their corporate culture. The first, essential, and necessary step for progress is to spread the message throughout state government that greater supplier diversity will catalyze more productivity and job growth in Virginia's economy. Internal administrative hindrances must be addressed to protect the credibility of the foregoing statement. The recommendations below are the building blocks in the foundation of a world-class Commonwealth of Virginia supplier diversity initiative.

### **Make Virginia the #1 place to start a small business in the United States.**

Many small business owners live, work, and raise their families in Virginia because of all she has to offer. Virginia is renowned as a top state for doing business – and this perception is verified repeatedly by independent, third party sources. Most recently, Pollina Corporate again named Virginia the “most pro-business state” in America in August of 2010. By keeping taxes and regulatory burden low; building a first-class educational system, and fostering a pro-business atmosphere; Virginia is undoubtedly one of the best states to start a business in the United States. Marketing Virginia as the #1 state for operating a small, minority-, or women-owned business will continue to retain and attract top-flight entrepreneurial talent to Virginia and help grow jobs and diversify the Commonwealth's supplier base.

### **Recognize that supplier diversity is an economic development tool.**

Most Fortune 500 companies have spent the last several decades constituting robust, diverse supply chains. Private sector best practices demonstrate the business case for taking particular interest in helping minority- and women-owned business (MBEs) to grow. (For simplicity, “MBE” will be used throughout to signify both minority- and women-owned businesses as a collective group.) Many employ MBE development programs to broaden their exposure in the marketplace and fortify their competitive advantage. Greater attention to diversity also serves to recruit new employee talent and customers. MBEs that successfully complete government contracts often utilize this success as a stepping stone to winning larger contracts from private industry. States with a strong base of small firms help support large firms who relocate to Virginia. Achieving greater supplier diversity in state government procurement will help the Commonwealth by supporting the fastest growing sector of business.

### **Establish and foster a culture of Supplier Diversity in the Commonwealth.**

The Commonwealth has given short shrift to supplier diversity in the past. The most prominent successful supplier diversity operations began with a transformational effort to build the importance of MBE economic participation; that is, supplier diversity must be on the agenda as an evaluative criterion every time a meeting or interview is held to consider a procurement opportunity. To help ingrain this notion into the culture, a focus on supplier diversity should be written into the job descriptions of government purchasers. A commitment to supplier diversity success should be a part of all relevant

at-will employee job evaluations. Meanwhile, this culture will help eliminate the widely held myths and misunderstandings about supplier diversity among prime contractors. No more will inaccurate claims of exorbitantly higher costs or lack of good faith efforts to find diverse firms suffice.

### **Install and empower a Director of Supplier Diversity.**

The Commonwealth must align limited resources with top priorities that establish a culture that fosters supplier diversity. Best practices demonstrate that successful operations empower the leadership of high-level employees who easily think about supplier diversity at work and sometimes while sleeping. Several additional steps are warranted to ensure success:

- The Director must be able to influence agencies, buyers, vendors, and prime contractors. The organization must empower and provide the resources necessary to carry out these duties.
- The Director must be intimately involved with the agency responsible for promulgating and enforcing procurement regulations and thoroughly understand Virginia government contracting and procurement. The Department of General Services is the appropriate agency to house the Office of Supplier Diversity; this follows the standard operating procedure at Fortune 500 companies and universities with robust supplier diversity initiatives.
- The Director must report directly to a high-level official.
- The Director will be responsible for proactively initiating and maintaining constant and effective contact with the SWaM community.
- The Director will develop means of rewarding buyers and managers for supplier diversity success.
- The Director will propagate successful best practices to those who need assistance.
- The Director will create more efficiency and effectiveness in minority- and women-owned business development through state procurement.

The Commonwealth's current supplier diversity efforts are disjointed across state agencies and lack a concerted effort by the Commonwealth. Not only do DGS, VDOT, VITA, and many higher education institutions have different procurement philosophies and approaches, other state agencies, such as DMBE, VDBA, VEDP, are charged with development of small businesses. As a result of these varying processes, it comes as no surprise that agencies achieve different levels of MBE spending success. This recommendation should not be misconstrued as a reconsolidation of procurement authority; rather, the Director of Supplier Diversity will help coordinate efforts across agencies. Many agencies are doing well and many others are not. Ultimately, this position will allow the Commonwealth to forge newfound connections between state agencies and MBE vendors in unprecedented fashion.

## **Declare an unequivocal statement of support for supplier diversity and distribute to all state agencies.**

Success starts with issuing a declarative statement that the Commonwealth's procurement as well as that of local governments should be accomplished in light of the fact that small business and diverse vendor lines together are drivers of future economic growth in Virginia.

Information that supports this should be communicated often to agency heads and others using multiple media. Cabinet Secretaries and agency heads should help disseminate this message vertically and horizontally throughout their organizations. Develop specialized education for government purchasers to inculcate the message by using all opportunities to educate stakeholders and spread the supplier diversity message in the culture of state government.

## **Demand strong, achievable aspirational goals and help agencies deliver results.**

Aspirational goals provide agencies with a vehicle to communicate expectations to vendors, buyers, and management. To ensure that the Governor's expectations are fully realized, progress must be measured through proper, standardized metrics. Currently, agency heads submit "SWaM Plans" outlining their agency-wide goals for small business contracting participation to the Department of Minority Business Enterprise annually; however, these plans must be revised to achieve a reduction of administrative burden and convey crystal clear expectations to management and contracting officers.

Agencies must be held accountable in order to ensure more contracting dollars are going to firms as outlined in their "SWaM Plans." More importantly, successful agencies should be rewarded for their efforts. Struggling agencies should be expected to learn from best practices adopted by successful agencies. Furthermore, the Commonwealth should work with agencies to set realistic goals that are cognizant of spending priorities and acknowledge capability and capacity of SWaM firms since unrealistic goals only serve to reinforce myths and deepen resistance to working with MBEs. We should help agencies that have exhausted all good faith efforts by connecting them in a hands-on way with MBE firms who are ready, willing, and able to do business.

## **Strengthen and enforce contract compliance.**

Several other tools can be used to increase compliance. A regular review of current contracts to find opportunities for greater MBE participation should become commonplace. Agencies should incentivize prime contractors to adhere to their stated SWaM utilization goals and contract terms on construction projects. Some audit capacity, including construction site visits, should be employed to identify breaches of SWaM subcontract agreements.

The Commonwealth should develop tools to ensure proper MBE subcontractor participation and payment. Such authority should be clearly vested in an entity that is granted power to carry out effective enforcement measures.

**Utilize a standard tracking, reporting and goal-setting process.**

As the saying goes, what gets measured gets managed. Success has been measured for too long in percentage values that obscure the real picture. The Commonwealth must ensure it is measuring correctly by establishing, standardizing, and developing results-reporting capabilities for all state agencies.

Through electronic tools, all state agencies (and those who are monitoring their progress) should work to track MBE spend at a granular level. Continual analysis should be employed to monitor MBE spend by department unit, commodity, and geographical area. These capabilities will allow managers as well as citizens of the Commonwealth to track and highlight cost savings and cost reduction that may grow from working with MBE firms. Setting a standard for clear, straightforward, even simple reporting will allow for unparalleled transparency in state government procurement.

**Remove barriers to entry for diverse firms and simplify the process for buyers where possible.**

Sustaining a culture of supplier diversity requires a positive attitude and a collaborative effort to nurture and support MBEs. The Commonwealth must maintain an ongoing, active dialogue with all concerned stakeholders and work to eliminate red tape when and where possible. Buyers should be able to feel and see how they are making a difference for Virginia's economy when helping MBEs succeed. The Commonwealth should consider the potential for decreasing reporting requirements on state agencies after proper metrics are in place to monitor progress in real-time. Surveys of vendors would demonstrate that buyers are always receptive to working with them and help them achieve mutual goals.

**Declare only one guarantee: opportunity to compete.**

The Commonwealth must only undertake supplier diversity initiatives with legal standing in the Code of Virginia. The Commonwealth must utilize the many tools available to increase minority- and women-owned business participation through legal, race-neutral efforts. Without the support of the law, efforts will be doomed from the start. Our supplier diversity efforts are essential to Virginia's economy, but so is a transparent, trustworthy procurement process undergirded by integrity. Government purchasers have a fiduciary responsibility as stewards of state funds to follow legal practices under the Virginia Public Procurement Act (§ 2.2-43). Vendors have an opportunity to compete in a robust marketplace, demonstrate best value, and win on merit.

## **Recommendations: Certification**

### **Questions to Ask:**

- What is the value of certification? For whom is it valuable?
- Which firms should be “certified”? What is the definition of small? What is the definition of minority-owned? What is the definition of women-owned?
- Who or what should certify SWaM firms?
- Is self-certification feasible or desirable?
- How can we build a better certification process that ultimately benefits diverse suppliers?

The Certification subgroup, chaired by Tracey G. Jeter, is charged with finding ways to build a better, more effective certification process for diverse firms and assist competitive businesses in entering the procurement marketplace. Other subgroup contributors include Al Bowers, Chris Harvey, Marco Harris, Michel Zajur, and Ida McPherson.

The Virginia Department of Minority Business Enterprise is seeking to enhance the participation of small, minority-, and women-owned businesses in Virginia’s procurement process through SWaM certification. At zero monetary cost to businesses, firms can be certified in one of three categories as defined by the Code of Virginia (2.2-1401). “Small business” means an independently owned and operated business which, together with affiliates, has 250 or fewer employees, or average annual gross receipts of \$10 million or less averaged over the previous three years. Businesses may also be certified as a “minority-owned business” or “women-owned business” if the company is at least 51% owned, managed, and controlled daily by one or more “minority individuals” or women.

All unnecessary hurdles to gaining certification should be removed. The Commonwealth should take a holistic approach and reform certification from the bottom up to register firms to compete for state contracts.

### **Study the definition of small business further.**

While estimates vary, most economists agree that upwards of 95% of Virginia businesses are considered small businesses. Any business with fewer than 250 employees is eligible for SWaM certification. Some members of the Advisory Board offer a compelling case that such a broad definition dilutes efforts to help small businesses. Many states and the federal government adhere to varying definitions of a “small business.” The U.S. Small Business Administration, for example, defines size standards by industry based on commonly accepted practices. The Commonwealth may study whether targeting definitions based on industry helps procurement officers reach diverse firms while avoiding costly additional bureaucratic processes.

However, DMBE statistics suggest that over 90% of small, minority-, and women-owned businesses in Virginia employ less than 50 people and fall far below the 250-employee standard. The Commonwealth may consider studying the potential significant, empirical

effects of lowering this threshold. Before undertaking changes to the Code of Virginia, the Commonwealth should see empirical evidence that altering this definition will lead in all likelihood to greater supplier diversity and spending with SWaM firms.

### **Recognize more third-party certifications.**

By recognizing designated, credible third-party entities, the Commonwealth could allow more MBEs to grow their businesses in Virginia at no additional cost to state government. There are several organizations that certify MWBEs using more stringent standards than the current SWaM certification. Accepting outside certifications will allow the Department of Minority Business Enterprise to shift its resources to where they are needed most. The Commonwealth could establish basic parameters and ensure that other certifiers cover all those parameters. Many of these organizations, such as the Virginia Minority Supplier Development Council (VMSDC) and the Women's Business Enterprise National Council (WBENC), have proven track records. Their certifications are routinely accepted and preferred by Fortune 500 firms. MBEs often benefit most from the interaction and networking opportunities gained simply by being a part of such organizations. Third-party certifiers should be held accountable and they must be willing to stand behind who and what they certify. The Commonwealth should keep its resources in-house to enhance the programs that will most benefit small companies.

### **Create a more valuable certification process and experience.**

Certification should not be seen as just proof of SWaM-eligibility; however, it should serve to inform vendors to better participate in the government marketplace.

Certification, in its current incarnation, provides no guarantee that a firm is ready or qualified to do business with the Commonwealth—nor should it. At its most basic level, it should provide benefits to both buyers and suppliers.

- Suppliers should emerge from the certification process with a newfound understanding of the toolbox of resources available to them. Resources are available to help SWaM firms receive loans for working capital or forge connections with potential customers (state agencies). Informing SWaM firms of all available resources is key to building awareness so these benefits may be utilized and targeted to disaffected constituencies. The key is to build awareness by showing SWaM firms all the resources and people available to help.
- Buyers should be able to trust that firms with current certifications have been properly vetted and informed of the resources available. An ideal SWaM certification would connote great potential for current and future success and serve as a positive and informative signaling device to state and local agencies.

Certification, while imperfect, provides access to the multi-billion dollar marketplace of state procurement. Diverse firms should feel their effort is worth it. Greater, targeted

efforts must be utilized to provide educational opportunities to those who want it most. Buyers must be educated on the benefits of SWaM utilization.

Through formal and informal means, greater attention to vendor education is the bottom line. Offering more free-of-charge seminars and one-on-one training series directly and exclusively to certified vendors would add value to certification. Eventually, a more formalized training process such as a “Diverse Supplier University” can be developed. The key to the success of this strategy is DMBE, VDBA, and the Office of Supplier Diversity must coordinate efforts to host collaborative programmatic events to connect certified firms with added benefits. Efforts must build on one another across departments and streamline rather than duplicate efforts.

### **Require eVA registration as a necessary step to receive SWaM certification.**

Almost 5,000 SWaM-certified businesses have yet to register in eVA as of December 2010. If 28% of registered firms are not registered in Virginia’s electronic procurement portal, then one can assume they are not responding to solicitations, and certainly not being awarded contracts.

eVA registration and SWaM certification should be a coupled process. Vendors ostensibly become certified to do business with the Commonwealth and eVA is the means of selling to the Commonwealth. It is the sole electronic procurement system approved for use by all agencies of the Commonwealth and allows for vast savings and efficiencies due to economies of scale. State agencies search for vendors on this site and also post requests for bids and proposals. Therefore, a SWaM firm that fails to register in eVA severely, if not completely, reduces its ability to compete for government contracts. Upon the completion of certification and approval, certified companies should be automatically be placed in the pipeline to begin to receive solicitations in their designated areas of business.

### **Deliver a personalized, customized “yellow pages” to SWaMs displaying who buys what they sell.**

Vendors need to know what the Commonwealth is buying. While this information is available online, it should be individually tailored for registered businesses by sector and distributed for use. This is a simple step toward increasing awareness of all business opportunities. This action will require the Commonwealth to undertake a more concerted effort to determine what state agencies are buying.

The Office of Supplier Diversity should analyze state agency spending and highlight opportunities for greater SWaM participation. Many firms do not have the time to analyze every intricacy of the state budget and the Commonwealth should provide this analysis to help less experienced firms compete for state government contracts. Wherever SWaMs are underrepresented in agency procurement projects, the Office of



Supplier Diversity should work to put vendors in direct contact with procurement officials in state agencies.

**Communicate the new value-added proposition of certification to all end users.**

Certification gets a small business in the door. It provides access. It is a badge that allows buyers and state government officials to see what a firm can offer and accomplish. It should allow vendors the opportunity to compete for state government contract work. Certification should convey to end users a level of credibility regarding firms' products or services. As certification is simplified and added-benefit comes to fruition, this proposition must be communicated to agencies and SWaM vendors. New value should be communicated to the status quo uncertified firms.

**Integrate the certification process with Governor McDonnell's business one stop initiative.**

Certification should be as painless as possible. Vendors should be registered with DMBE, eVA, and where practical, the Department of Professional and Occupational Regulation (DPOR) simultaneously. A centralized, streamlined process would greatly reduce the administrative burden on Virginia small businesses and allow them to focus on conducting business, growing jobs, and pumping greater resources into the Virginia economy.

Virginia's Business One-Stop system is a service provided by the Virginia Department of Business Assistance. Governor McDonnell's Commission on Government Reform and Restructuring recommended "significantly enhanc[ing] the "Virginia Business One Stop" website into a "First and Only Stop" by increasing the information, resources, and assistance available to Virginia entrepreneurs to ensure that truly only one stop is necessary to get a new business up and running with minimal delay." DGS and DMBE are heavily involved and should remain so in the implementation of this project. All state agencies must expand and strengthen interagency partnerships with VDBA and help make all business needs available in one place.

**Reform the recertification process.**

Secretary of Administration Lisa Hicks-Thomas, chair of the Advisory Board, solicited advice and feedback from public buyers on practical ways to achieve greater supplier diversity and procurement transparency and efficiency at the first in a series of Town Hall meetings on November 16 in Hampton. Over 100 buyers from across the Commonwealth contributed to this ongoing and important dialogue.

Virginia's Administrative Code requires businesses to renew their certification every three years. Buyers identified the difficult process of helping SWaM firms become recertified as their number one concern in state procurement. Buyers work with SWaM firms on a daily basis and maintain personal relationships with vendors. As a result, often become intimately involved in a business recertification process as a certification lapse interferes

with a buyer's supplier diversity efforts. Though not a part of their job description, buyers often choose to assist their vendors through the recertification process.

Furthermore, DMBE expends a significant amount of personnel resources on recertifying SWaM firms. Over 2,000 were *recertified* in the 2010 calendar year alone. At an estimated cost of \$150 per certification, it is estimated that the Commonwealth recently spent approximately \$335,000 on recertifying firms already certified as SWaMs instead of reaching out to new startups. DMBE should revisit its recertification regulations and make it easier for firms to continue participating in the system.

**Deepen the relationship and continue communicating long after certification first occurs.**

Certified firms must be able to easily navigate the Commonwealth procurement marketplace. The Commonwealth should establish regular and continual contact with diverse firms. This will allow the firms to gain technical assistance, updated training, take advantage of matchmaking opportunities, and build capacity by utilizing all of the Commonwealth's varied economic development resources.

**Enter into shared agreements with the fourteen states on the "block out" list as much as reasonably possible.**

14 states and the District of Columbia exclude Virginia businesses from their equivalent or similar programs for small, minority-, or women owned firms. Likewise, businesses from these states are not eligible to participate in the Virginia SWaM Program as required by the Code of Virginia (Section 2.2-1403 (8)). The law states "certification programs shall deny certification to vendors from states that deny like certification to Virginia-based small, women- or minority-owned businesses or that provide a preference for small, women- or minority-owned businesses based in that state that is not available to Virginia-based businesses."

Many memoranda of understanding are in development with several of these 14 states. DMBE should continue working with these individual states to reform their certification or preference programs to all for greater free trade and competition and reduce unnecessary government interference in the private marketplace. Certifying out-of-state firms that maintain significant presence and operations in the Commonwealth should continue as well as long as there is continued benefit to the communities in Virginia and the opportunity to create job opportunities for citizens of the Commonwealth.

**Allow franchisees to earn SWaM certification.**

Current regulations require certification officers to decline applications from small businesses associated with national franchise chains. These requirements unfairly punish businesses for associating with name brand, successful business enterprises. DMBE should follow the federal model as the U.S. Small Business Administration classifies most

franchisees as a small business provided it operates under its own ownership, management, and for its own profit (or loss).

### **Champion and encourage greater private sector participation.**

Government contracts should be a starting point for diverse suppliers. Viable business models involve multiple private sector clients and do not conduct business exclusively with state and local government. Many prime contractors now consider supplier diversity success a competitive advantage that allows them to get in front of companies that are lagging behind. The Commonwealth should work to carry this message to all prime contractors.

The Commonwealth should also encourage SWaM firms to do business in other states as many opportunities present themselves across state borders. Not all business opportunities are within the borders of the Commonwealth. Certified firms should actively compete in all marketplaces. DMBE should encourage and assist construction firms in border areas with doing business in D.C., Maryland, West Virginia, Kentucky, Tennessee, and North Carolina. SWaM firms offering goods and services can ship to any state in the union or country across the globe.

### **Conduct organizational audit and review of the Department of Minority Business Enterprise.**

In a time of unprecedented budgetary challenges, the Commonwealth must ensure all its agencies are targeting resources to accomplish their core missions only. DMBE is no exception; it too must be organized in the most efficient and effective way to help SWaM firms do business with the Commonwealth. The Department must also be given the authority to make critical decisions that impact business opportunities for its constituent base; i.e., SWaM firms by working directly with other agencies to develop contracts and institutionalize language within those contracts that enhance utilization of SWaM businesses while encouraging compliance with regulations already in place.

### **Consider promoting a Virginia procurement “access pass” in lieu of “SWaM” status.**

As noted above, a reformed certification process would go beyond merely verifying racial and gender status and add value to businesses. eVA registration and DMBE certification together serve as an access pass to government procurement. If a firm becomes certified, registers in eVA, and participates in additional education, then it could receive an “access pass” to do business with the Commonwealth. Shifting away from the obfuscating SWaM acronym would help the Commonwealth demonstrate to vendors the added value of an improved certification process.

### **Consider focusing certification efforts exclusively for firms who want to do business with Virginia.**

Removing private sector firms who seek certification for other purposes allows the Commonwealth to focus its marketing and outreach efforts on a select, specialized pool of vendors who are looking for business opportunities. Third-party entities certify many firms who do business with private sector companies. The Commonwealth should shift limited resources to leverage the greatest of available opportunities.

The Commonwealth should consider drawing a useful distinction between these firms by developing a two-prong approach to certification. The first tier might include only firms who want to do business with Virginia. Certification, and eVA registration, will be required; however, these firms will also reap the benefits of the Commonwealth's training and outreach efforts. The second tier will be a streamlined certification process for those who utilize their SWaM certification to do business with private sector firms or local governments.

### **Consider contracting certification authority to third-party entities.**

The decision as to who or what qualifies as a small, minority-, or women-owned business is not an inherently governmental activity. With many third-party entities certifying, assisting, and marketing MBEs already, the Commonwealth should build proper safeguards to prevent fraud and compliance and consider whether state government should maintain an unnecessary government monopoly on small business certification. Under current budgetary realities, Virginia state government should leverage the free market system to conduct its current business more effectively and without harm to the public good.

### **Consider allowing non-profit organizations to become certified.**

- Non-profit 501(c)3 organizations may not be certified under current law, as a small business is explicitly defined as a "for profit" enterprise. Many nonprofits operate much like small businesses and may be eligible for greater opportunities and potential partnerships with state agencies as a result of becoming SWaM-certified.

### **Consider allowing firms to receive multiple racial or gender group certifications.**

- Firms may only hold one certification at a time and many must choose between being classified as a women-owned business or a minority-owned business but may never combine the two.

## **Recommendations: Marketing & Outreach**

### **Questions to Ask:**

- How can we better market procurement opportunities to SWaM vendors?
- How would a decentralized state SWaM network better serve diverse suppliers?
- In what creative ways can we reach our target audience?
- How can we promote relationship building and mentoring opportunities?
- How do we incentivize large construction firms to help achieve our supplier diversity goals and objectives?

The Marketing & Outreach subgroup, chaired by Ken Johnson, is charged with finding ways to ensure state agencies, SWaM firms, and elected officials are aware and fully aligned with the state's procurement process and opportunities afforded by it. Other subgroup members include Delegate Ron Villanueva, Dr. Mark Whitaker, Rafael Lopez, and Clovia Lawrence.

Too often supplier diversity marketing efforts are improperly considered a one-way street. Nor should marketing and outreach be considered only a two-way street between buyers and sellers. Instead, supplier diversity marketing and outreach efforts are best represented as a complex, dynamic system that pushes this message in multiple directions. Buyers need to market opportunities to vendors, vendors need to reach out to buyers, and all stakeholders need to market the inseparable nature of significant MBE participation and an efficacious, growing Virginia economy to elected officials and the voting public.

### **Direct all state agencies to communicate an updated, comprehensive plan for achieving supplier diversity goals.**

Agencies should identify specific short-term and long-term efforts to strengthen their SWaM business development efforts. A compilation of clear and deliberate agency supplier diversity action initiatives should be posted for public consumption and transparency.

### **Rebrand the Department of Minority Business Enterprise.**

DMBE has too often been distracted from its central mission to help develop Virginia small businesses. After careful review, consideration should be given to reorganizing and rebranding DMBE with a fresh new name, logo, mission statement, goals and objectives. A refreshed, rejuvenated agency can help lead this coalition of stakeholders and lead state agencies from within government.

Consider discontinuing use of the SWaM acronym. Lumping diverse suppliers into one imperfect naming convention is problematic for business owners. Many view the SWaM

designation as stigmatizing and prefer to go uncertified for that reason. Certainly, the Commonwealth should address the perception of “SWaM” and consider refining its reporting standards to ensure all small businesses are included.

### **Refute long-held myths about supplier diversity.**

Buyers and vendors alike must push back against commonly held fallacies regarding diverse suppliers. SWaM firms do not always or necessarily cost more or create greater administrative burdens for buyers or taxpayers. SWaMs often have the capacity to perform on large contracts but may choose not to participate for other reasons.

### **Publish electronic results from all state agency solicitations.**

Real-time information is especially critical for *upcoming* opportunities. In the same vein, SWaM vendors can find results following a bid process in different places depending on a respective state agency. Instant, direct, and constant feedback is a key step to helping SWaM firms grow and take advantage of opportunities to compete. Whenever a RFP, RFQ, IFQ, or bids under Virginia’s PPTA or PPEA are solicited, bidding vendors should have access to the results—whether a state agency, college, university, or local entity issued the request.

### **Place a “SWaM Declaration” in all state contracts.**

All solicitations should delineate clear opportunities for small business spending in the language of the contract itself. Prime contractors must be able to see clear guidance for doing business with the Commonwealth of Virginia and the essential nature and singular importance of subcontractor development. A statement to this effect as part of a written, binding contract will make leaps and bounds to demonstrate the Commonwealth’s commitment.

### **Build a diverse coalition of stakeholders to trumpet supplier diversity before elected officials.**

Effectively engaging all stakeholders requires building a diverse coalition of business and civic leaders, policy makers, and vendors who will communicate the importance of supplier diversity and build political support in a coordinated way. Virginia is actively competing against other states for business and this coalition is essential to help attract quality businesses that recognize and demand a diverse supplier base as a competitive advantage and imperative.

The benefits of supplier diversity must be regularly shared with members of the General Assembly. DMBE should find ways to help legislators see the positive impact SWaM businesses are making in every House of Delegates and Senate district of the Commonwealth. In every Virginia locality, diverse suppliers are creating jobs, creating wealth, and providing opportunity for greater cost efficiencies through public-private

partnerships. Greater supplier diversity builds a broader tax base and facilitates greater stabilization through economic success in our communities.

**Develop an overarching initiative that will communicate and activate the procurement process for stakeholders.**

The Commonwealth's supplier diversity initiatives need to be properly marketed. In fact, advertising in the right fashion and direction is an integral part of our future success. Many vendors often say they do not know the opportunities available to them. Many buyers often say they do not know where to find the minority- and women-owned businesses to fit their agency needs. Greater effort will be required of both buyers and sellers, but meanwhile, any and all impediments must be removed and the lines of communication opened and strengthened.

**Facilitate finding MBEs by creating a clear vendor search engine.**

According to buyers and SWaM vendors, the current DMBE vendor database is clunky, outmoded, and complicates doing everyday business. The DMBE website is the authoritative source for searching for SWaM vendors but the interface must be greatly improved.

Buyers find it difficult to identify local or regional firms. For example, let us imagine a buyer is looking for a firm in Richmond zip code 23220. Entering this zip code will only yield results for firms within that exact zip code and not the city as a whole or the surrounding area. The limitations of the search engine drastically limit options – and the perception of available options – available to buyers. Imagine all the firms in the City of Richmond and counties of Chesterfield, Henrico, Hanover, and more that are excluded by this search process. Buyers should be able to search for firms within a 30, 60, or 90-mile radius.

Additionally, the Commonwealth should produce new maps of where small and MBE firms are located and/or clustered. Buyers should be able to look at an online map and see precisely where small, minority-, and women-owned firms are located. Firms will often travel all over Virginia for goods, services, or construction projects. In the twenty-first century, firms can do business in any locality and with any agency.

**Decentralize supplier diversity initiatives in order to bring efforts closer to the people.**

Just as the Founders recognized that the government closest to the people governs best, the same holds true for economic development efforts. Business assistance works most effectively through personal, local, face-to-face interaction. The Office of Supplier Diversity and DMBE should emphasize efforts to go to where firms are. A business owner should not have to drive to Richmond to become certified or receive education and training.

The Commonwealth should establish a highly visible presence where the largest pockets of MBEs locate; meanwhile, no region of the Commonwealth should be excluded from these initiatives including economically distressed areas like Southwest Virginia and Southside. Moreover, the Commonwealth should establish or partner with an educational firm to build a significant online training presence and course curriculum on the web.

**Build a comprehensive, authoritative, transparent dashboard for real-time spending data.**

Effective marketing and outreach requires a standardized, real-time view of available contract opportunities and results. While Virginia has a decentralized procurement system, DMBE cobbles together an amalgamation of data from state agencies, higher education institutions, and local government to conduct spend analyses. Current reporting is disjointed as many state agencies and local jurisdictions use eVA at the point of requisition and throughout the process while many others use individualized procurement systems and feed procurement data back to eVA. Accountability will require accurate data and spend analysis and the process should be streamlined to accommodate easy, even automatic where possible, state agency periodic reporting.

**Promote greater mentor-protégé relationships for MBEs.**

The Commonwealth should recruit project managers from large construction contractors to mentor smaller, less experienced firms and stress the importance of supplier diversity and the future of Virginia's economy to prime contractors.

Primes must talk to subcontractors. Subcontractors must talk to primes regarding possible opportunities, direct solicitations, and exploring potential mentoring opportunities between large and small firms through creative incentives. W.M. Jordan and Gilbane are just two examples of many construction firms who excel in developing MBE suppliers.

The Commonwealth should explore enlisting the help of the willing private sector entities to establish active, productive mentoring programs for all industries. Mentors help protégés establish a viable, visible market presence and grow through one-on-one coaching. Capital One serves as a model in the financial services industry for its mentor-protégé program.

**Host educational opportunities for government purchasers demonstrating the importance of utilizing MBEs.**

Education begins internally in state government. Demanding unrivaled accountability of state agencies should be coupled with the economic development message that undergirds supplier diversity efforts.



The “SWaM Champion” program – whereby all state agencies name a designee responsible for coordinating SWaM purchasing efforts with the department – should be better utilized. By creating buy-in at all state agencies, SWaM champions will not only feel privileged to hold this designation, but will also be the first voices communicating the positive results that grow from supplier diversity. The Commonwealth must find ways to add value and highlight the importance of SWaM champion efforts.

### **Team with state agencies that host successful outreach programs.**

Agencies should leverage and collaborate on MBE outreach programs. This recommendation is best explained through two prominent potential examples:

- 1) Virginia Small Business Development Centers (SBDCs) provide local, hands-on training and consistently demonstrate program effectiveness rooted in hard statistics. 29 local SBDCs provide direct counseling to businesses in their own communities. The Virginia SBDC network is a partnership between the U.S. Small Business Administration, George Mason University, and other Virginia institutions. Clients that received in-depth SBDC assistance in 2008 grew jobs at a 10.4% rate in 2008 during the depths of the Great Recession. All economic development organizations should leverage the decentralized, proven effectiveness of models like Virginia SBDCs.
- 2) Small business owners wear many hats, as they are responsible for not only day-to-day operations and project supervision, but often also serve as chief human resource officer, financial officer, and marketer. The Business Opportunity and Workforce Development Center (BOWD), housed in the Virginia Department of Transportation (VDOT), provides one-on-one assistance to underutilized Disadvantaged Business Enterprise (DBE) firms on many aspects of the “back office” operations inherently part of running a small business. DGS, DMBE, VDBA, can partner with VDOT to co-host business opportunity events on practical tips for keeping back office operations moving so business owners can focus on their current project or bidding on the next one.

### **Create a Commonwealth-wide calendar for local outreach events to be shared by all state agencies.**

Vendors and buyers should have one place to go for viewing upcoming outreach, training events, and pre-bid meetings. The Director of Supplier Diversity can coordinate efforts across agencies and pair sponsors when advantageous. A VDBA employee should be given the capability to direct trainees to a VDOT training event particular to road construction or to a DGS training event for public building construction. The Commonwealth Calendar is an excellent potential partner or model to follow as it serves as the bulletin board for announcing all official government meetings to the public.

### **Encourage volunteer assistance from qualified professionals to assist SWaM startups.**

The Office of Supplier Diversity should partner with the Virginia Department of Business Assistance (VDBA) to develop a pool of volunteers from business consulting firms who are willing to serve as mentors to startup entrepreneurs. VDBA and DGS have hosted training sessions with this purpose in the past and the pool should be grown and the participants strengthened. The Commonwealth should help firms respond to solicitations through training on estimating, scheduling, and other often overlooked aspects of doing business.

### **Demystify the procurement interface and vendor experience.**

eVA, Virginia's one-stop shop for all procurement actions provides a conduit for state agencies and SWaM vendors to connect with each other directly. The Commonwealth should harness the power of the Web to reach and do business with SWaM vendors in all corners of Virginia. SWaM vendors should be able to easily access notices of upcoming projects and opportunities particularly in their home regions. eVA's role as the statewide clearinghouse for all solicitations and for all agencies should be augmented and reinforced.

Vendors should have access to more face-to-face, hands-on, individual training sessions for getting started with eVA. Automatic notification of business opportunities should continue to be instantly delivered to SWaM vendor inboxes. Every vendor should receive news of business opportunities directly. All solicitations are posted on the web and alerts should be delivered immediately. It is necessary to ensure that SWaM vendors are registered and maintaining updated contact information up to date in eVA, as it has the technological capability to deliver opportunities instantly to vendors.

Buyers should be forthcoming and provide constructive criticism to losing bidders. They should use every opportunity to engage with diverse suppliers and educate further by explaining openly and directly why the winning bid succeeded. Buyers can bring an unprecedented level of understanding and support to businesses if they are forthcoming in providing constructive, concise, and rapid feedback.

### **Consider early payment incentives for prime contractors who engage in effective mentor-protégé relationships.**

## **Recommendations: Bonding & Capital Access**

### **Questions to Ask:**

- How can we remove all barriers that prevent procurement officers from utilizing diverse suppliers?
- Are capital access and lack of bonding capacity the primary impediments limiting diverse firms' ability to compete for contracts?
- How do we encourage a flourishing private bonding market and system?
- Should we develop a self-bonding pool?
- Should the Commonwealth loosen bonding requirements?

The Bonding & Capital Access subgroup, co-chaired by Julia Hammond and Eddie Ramirez, is charged with ensuring diverse suppliers have access to the financial support that attracts procurement officers and prime contractors. Other subgroup contributors include Peter Su and Cecil Hobbs.

Small business success is driven by macroeconomic factors. In the wake of the worst recession in generations, capital expenditures remain near record lows, revenues are below expectations, and affordable credit lines remain elusive. Main Street Virginia was especially hard hit in recent memory; however, these same small businesses are leading Virginia's economic recovery. Many firm owners cite access to capital and difficulty obtaining bonding as primary impediments restricting growth of their business.

### **Bonding**

Securing bonding is often a catch-22 for new construction firms. Project experience is the key qualification necessary to obtaining bonding; however, firms usually are not bonded without displaying prior project completion success. A firm's creditworthiness and financial solvency should be factors in the equation; nevertheless, bonding difficulties disproportionately affect MBEs and ensuring open access to bonding will dramatically increase opportunities for MBE firms to participate as a subcontractor or a prime contractor.

### **Draft and support legislation to raise the minimum contract amount requiring bid bonds and performance and payment bonds.**

Under the Virginia Public Procurement Act, projects valued at \$100,000 or above require bid bonds. The General Assembly should raise this threshold to \$1,000,000. The Commonwealth should follow best practice models demonstrated by the almost Virginia colleges and universities that have successfully charted this course under their Management Agreements adopted as part of the Virginia Higher Education Restructuring initiative. Since restructuring, these colleges and universities have seen greater MBE participation in construction projects.

Difficulty obtaining bonding particularly impedes small business contractors. Contract indemnification clauses require principals (and often their spouses) to pledge personal assets as collateral should the contractor fail to meet its obligation to surety companies. Obtaining bonding requires especially good personal credit or liquid assets. Furthermore, one's bonding capacity can limit the amount of work on which a company may bid. The unintended consequence of these heightened requirements limits the amount of work contractors may bid on and thus ultimately traps potential opportunities for job growth in a holding pattern.

Bonding requirements increase inefficiency in state government. This legislation will benefit state agencies and make contracting with SWaMs more easily and reduce the heavy workload on procurement officers. Vendors would not be held in limbo awaiting results of awarding contracts. Raising the threshold will create greater efficiency and eliminate complicating factors in the procurement process. Certainly, companies who are still unready to do work at a certain level will be bidding on more projects than before a higher threshold is established. However, proper safeguards already exist in procurement processes to vet low bids submitted by companies.

Projects with values of less than \$1 million will need to have bid documents and forms reviewed carefully and screened prior to contract issuance. To ensure the interests of the Commonwealth are protected, DGS can begin allowing the higher threshold exclusively for "prequalified" firms to assess risks before opening up the process for all firms.

Colleges and universities rarely use bonding and the University of Virginia in particular does not use it in open low bid situations. In these scenarios, they employ competitive negotiation or an RFP process exclusively. A sound, underlying business case is driving higher education institutions to eliminate bonding requirements. Higher education institutions are eliminating bonding requirements due to a sound underlying business case. Ensuring firms have secured bonding is a cumbersome, bureaucratic process --that MBE firms have benefited is a fortuitous by-product.

State agencies also rarely call bonds in practice. Firms are not always successful; however, it is much cheaper and efficient for the owner to negotiate with the contractor a settlement through direct talks. Calling bonds is often a litigious and laborious process.

Reducing bonding requirements is a win-win for both parties. Agencies save expenses, time, effort, and get contracts to market more quickly. Vendors see greater opportunity to compete for these government procurement opportunities.

### **Market and augment value of construction and trades "prequalified" list.**

The Commonwealth should establish a unified system for designating businesses as ready, willing, and able to do business with state government. Firm stability, reliability and prior performance should all be considerations in contract negotiations. Prequalification should not be seen as a barrier to entry for firms, but instead should be a

vehicle to build a greater track record and allay concerns that firms are too inexperienced to bid on state contracts.

The Commonwealth of Virginia has vast experience with prequalification:

- In June 2007, DGS developed a pre-qualification program to better provide opportunities for SWAM construction and trades contractors. This program also serves state agencies, as it is open for use by all public bodies and provides an efficient way to contract for construction services valued at \$500,000 or less and new construction valued at \$250,000 or less. As of November 2010, there are 360 firms on DGS' prequalified list.<sup>vii</sup>
- DGS should continue to solicit additions to the prequalified list in partnership with DMBE. Beyond the benefits of greater diversity in contracting, a more robust prequalified list would save greater taxpayer dollars. Using the pool shortens the bid cycles, reduces the cost of drawings and specifications, and thus creates a smoother bidding process for all involved.
- Use of the prequalified list is growing in procurement agencies across the Commonwealth and the benefits of this program should be marketed to localities directly. There are 150 firms on the VDOT "prequalified" list.<sup>viii</sup>

### **Analyze and reduce risk to the Commonwealth wherever possible.**

Liability can be further minimized utilizing the following methods:

- Bids are or should be evaluated to make sure that they are not front-loaded. An example would be a contractor bidding 80% of their total offering for forming concrete stairs, and 20% for the actual concrete and finishing. The state keeps data by work type to compare high, low and average offering to flag potential problems.
- Owner designates an agent to approve materials to be utilized on the project.
- Owner designates an agent to inspect all aspects of the project and confirm what quantities are completed
- Pay applications are submitted at the end of the month for work completed during that month and payment is received 30 days after the application is processed. This means the state holds up to 60 days worth of payment for completed work at any point. This money can be immediately applied to any financial liability if the contractor fails to complete the project.

### **Capital Access**

There is evidence the credit market is slowly recovering; meanwhile, many Virginia governmental and nongovernmental entities are primed to loan capital for expansion, growth, and operating expenses. Much as other subgroups are placing particular significance to the power of educating vendors, the experience of this subgroup led

members to determine that providing access to capital is all about increasing firms' awareness of available opportunities.

### **Tie capital access educational programs to certification.**

In the current economic environment, small businesses have found access to financing more difficult to obtain than in any other time in recent history. The reasons behind the difficulty in small businesses accessing credit and equity are varied. Some businesses say that access to credit and equity has tightened, while some lenders and investors say demand has decreased as businesses have become more cautious.

Additionally, the view of what makes a company "creditworthy" varies. Most prospective borrowers contend that they are creditworthy because they have never missed a payment and have moderate to strong credit scores. Banks may determine that the cash flow of the business does not reflect an ability to repay the loan or that the collateral value has declined. By this definition, the bank may view the borrower as not being creditworthy and decline the loan request. While wanting to loan, a tighter regulatory environment causes banks to downgrade existing loans and boost capital reserves, making less credit available.

### **Establish guidelines for tying certification with capital access training.**

Most SWaM certified businesses are not aware of the state-administered programs available to help them tackle the capital access hurdle through education and the utilization of the Virginia Small Business Financing Authority (VSBFA). The VSBFA's Loan Guaranty, Virginia Capital Access, and Tobacco Capital Access programs are designed to assist banks and credit unions in extending working capital lines of credit in a non-bureaucratic and efficient method. These programs can also be used to address the refinancing need, which small businesses have requested. The VSBFA's Economic Development Loan Fund is a direct loan program that provides gap funding between private debt financing and private equity.

### **Survey small businesses to target capital access educational efforts to those who need it most.**

Maintaining an open and ongoing dialogue by regularly asking questions of small businesses will allow the Commonwealth to identify populations best served by "creditworthy" technical assistance education. Otherwise certified firms both new and old will feel left out of the process and apart from this essential discussion.

### **Align DMBE certification with VDBA training seminars for small business.**

VDBA offers several informational services including: Entrepreneur Express, Virginia Business Information Center, Virginia Business One Stop, and One-on-One Business Builder Counseling. For example, depending on industry, SWaM vendors selling goods and services could attend VDBA's "Grow Your Sales" seminar for added benefit. As part

of bringing programs closer to business, Richmond cannot be the only training location. All supplier diversity-related agencies must be mobile and establish a significant presence across the Commonwealth – particularly in Hampton Roads and Northern Virginia.

### **Conduct job satisfaction analysis surveys following project completion.**

The Commonwealth should maintain a database on company success following completed projects as determined by project managers and state agencies. The results of such analysis should be posted conspicuously for all buyers, vendors, and citizens to see. This transparent process will help eliminate the persistent myths that small companies do not complete projects as well or at cost. It will also allow small businesses to demonstrate their positive, successful track record. Past performance is a fundamental indicator of a business' ability to perform. DGS currently offers a voluntary job satisfaction survey on large state construction projects but enlisting participation has proven difficult previously.

### **Enlist Construction Management firms in individual outreach for greater diverse supplier business development in construction.**

No entities are better suited than construction project management firms to build bridges between large prime contractors and MBE subcontractors. As part of efforts to leverage private sector expertise, the Commonwealth should consider developing ways to encourage rewarding firms that contribute their expertise back into the supplier diversity network.

### Potential recommendations in need of further study:

- **Consider creating a “prequalified” list for professional architectural and engineering services.**
- **Explore means for partial/supplemental bonding to help companies grow beyond their current levels.**
- **Consider providing options for agencies to hold retainage when no bond is provided.**
  - The Commonwealth could hold retainage in escrow until project completion and paid with all applicable interest in full.
- **Consider charging a small fee for jobs not bonded.**
  - The fees would be held in a pool to fund any litigation resulting from non-bonded projects. Committee members believe this fee would need to be at least two percent of total project cost.
- **Consider creating a penalty system to discourage bids which are not submitted in good faith.**
  - Contractors who submit lowest bids but fail to enter into contracts could be discouraged from doing so by possibly a suspension period determined by the overall value of the contract.

- **Consider developing a self-bonding pool.**
  - DGS can manage risk by limiting self-bonded firms from participating in projects over \$5 million in value. DGS should also be willing to debar contractors who default on projects for up to three years.
  - The Commonwealth should quantify definable risks before proceeding.



## **Recommendations: Procurement**

### **Questions to Ask:**

- Where can the Commonwealth apply its limited resources to produce the greatest possible participation and utilization of diverse firms?
- Are certain functions of state government duplicative, outmoded, or unnecessary?
- Are certain functions of state government unhelpful?
- How can we promote a positive and productive culture of Supplier Diversity across all state agencies?
- How can the Commonwealth affirm its Supplier Diversity goals in greater ways?

The Procurement subgroup, chaired by William Cooper, is charged with enumerating the steps necessary to ensure the Commonwealth is utilizing diverse suppliers in perpetuity. Committee members include Bob Sledd, Dona Storey, Mary Guy Miller, Angela Wilkes, and John Biagas.

The Commonwealth should commit to building a supplier diversity program modeled after private sector best practices. Doing business with diverse firms allows the Commonwealth to expand its market and achieve cost savings due to increased competition from minority- and women-owned businesses. Supplier diversity success requires a multi-dimensional look at our procurement laws, regulations, procedures and practices.

### **Use appropriate metrics.**

What gets measured correctly gets managed correctly. The Commonwealth should differentiate between certified firms that are bystanders and those that are participants. Almost five thousand firms that held current certifications in 2010 declined to respond to a single Commonwealth solicitation.<sup>ix</sup> Meanwhile, many certified firms bid regularly and fail to win contracts. Firms that proactively compete for business, but fall short, warrant greater attention and assistance.

### **Measure success in absolute terms by dollars spent rather than on a percentage basis.**

Cabinet officials, agency heads, buyers, and suppliers must be graded using proper metrics that delineate between success and failure. Some are true champions of supplier diversity and others need improvement, but the Commonwealth should set standard metrics and conduct agency compliance audits and analysis.

### **Raise the small purchase threshold.**

Raising the small purchase threshold from \$50,000 would create greater transparency and efficiency in state procurement while generating new, higher value opportunities and projects for SWaM participation. This threshold could be raised for goods and services, including professional services.

This adjustment will allow for more opportunities for buyers to use their discretion to encourage greater SWAM utilization. Buyers are the folks who connect on a personal level with vendors and best understand how individual SWAM firms can do business with the Commonwealth. The Commonwealth should grant more authority – and responsibility– to public procurement officers who already act in the Commonwealth’s best interest. Stakeholders must keep in mind that as fiduciary officers managing public funds, buyers must utilize the most responsible, highest rated bidders on all projects.

### **Unbundle large state contracts.**

Is this same as broad strategies language? When feasible, construction projects should be unbundled to deliver greater small business participation. This process allows less experienced firms to participate directly in contracting with the Commonwealth. The Commonwealth has spent several million dollars in recent years with SWaMs due to the benefits of unbundling.

The Commonwealth’s nascent program of unbundling contracts in goods and services is still in its infancy, but we should remain committed to finding ways to strengthen this program and take advantage of it as a way for state agencies to achieve their SWaM goals. The Commonwealth should consider ways to unbundle contracts in *all* areas of procurement including goods and services.

### **Conduct a spend analysis.**

What is the Commonwealth buying? Analyze what the Commonwealth purchases by industry, by service, or by particular goods. School systems buy much of what you might expect. They purchase textbooks and school buses. The majority of minority- and women-owned firms provide services.

By incorporating the principles of supply chain management, a four-phase process that begins with a spend analysis can be used to define a more realistic potential MBE spend; segment the potential opportunities; and by using the segments establish a level of investment and commitment to each supplier group. A secondary yet necessary step in this process is to establish a strong review process for all expiration dates of all existing contracts to always lookout for new opportunities.

A detailed example is included as an appendix to this document.<sup>x</sup>

### **Encourage greater diverse spend in previously underutilized fields.**

Typically, construction gets the lion's share of attention in supplier diversity efforts. As the Commonwealth spends millions each year on goods, professional services, and information technology, MBEs can capitalize on unique opportunities in several fields.

- **Healthcare:** But many minority- and women-owned businesses offer and deliver quality products to healthcare organizations across the globe. Owens & Minor, headquartered in Mechanicsville, is a prominent leader in this industry.
- **Information Technology:** The rapid growth rate of minority-owned businesses combined with the fast pace of the IT industry results in limitless opportunities for MBE firms.
- **Professional Services:** Legal services firms and financial consultancy firms are just two examples of service providers state agencies can rely on to meet their business needs while simultaneously increasing small business spend.

### **Modify how solicitations contracts are posted.**

- Include supplier diversity language and explicit aspirational goals or supplier diversity inclusion and selection in all solicitations.
- Install a process that will review the outcomes of the RFP process to monitor inclusion and utilization of diverse suppliers.
- Ensure MBE subcontractors receive reasonably rapid payment. Several vendors offer programs with this capability.
- Conduct ongoing review of existing contracts to ensure MBE inclusion.
- Establish a schedule of pre-meetings significantly in advance of posting solicitations in order to ensure widespread, diverse participation at the onset of a project.

### **Encourage greater use of competitive negotiation where allowed by law.**

Larger firms gain a disproportionate advantage where hard bids are required. Competitive negotiation allows for more personal interaction and guidance to firms. IT provides a greater opportunity for transparency to remove the mysteries behind purchasing decisions and firms understand the process *before* contracts are let.

**Encourage public buyers to hold open office hours and seminar events for vendors.**

The greatest resource for vendors is usually agency buyers they interact with on a regular basis. In the experience of the Advisory Board, buyers willingly and graciously offer personal assistance, advice, and counsel to the small, minority- and women-owned firms they work with continually.

**Conduct an analysis of future procurement opportunities.**

In addition to current solicitations, DMBE should provide vendors with an upcoming preview of procurement opportunities. When monies are appropriated, all registered vendors who provide the relevant goods, services, or construction services should be informed of upcoming opportunities. There should be no surprises in procurement and firms should have ample opportunity to plan and prepare to bid for contracts in advance.

**Consider issuing strong supplier diversity directives to state agencies.**

Through various executive means, the Commonwealth should utilize carrots and sticks to reward agencies that perform well and provide remedial measures for agencies that are doing less than they can. Directing agencies to post SWaM goals and plans in conspicuous locations on their websites, for a simple example, would help lend accountability by requiring transparency.

**Maintain a crosswalk between national/federal/eVA/DMBE commodity codes.**

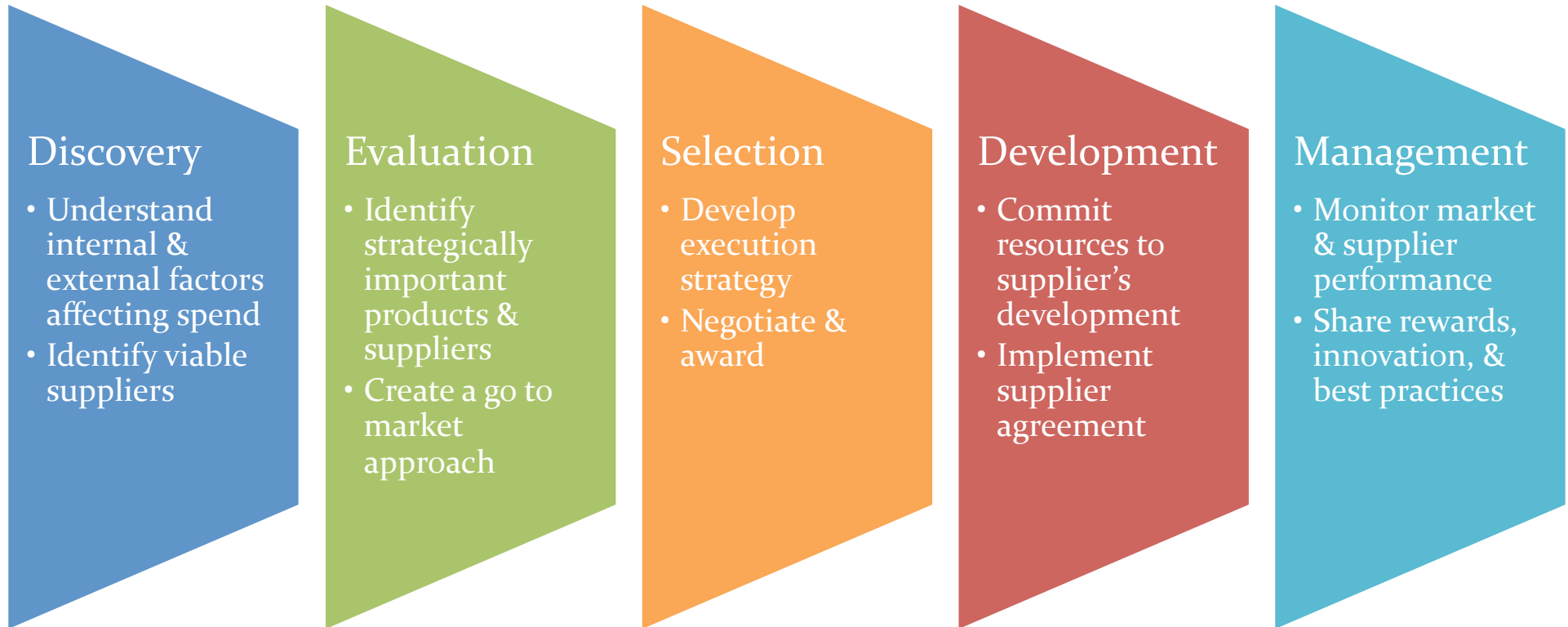
Commodity coding is the numeric classification system vendors use to denote the goods or services they provide. The Virginia Employment Commission maintains a database on every Virginia business. The Supplier Diversity Office should utilize this information to match goods and services sold by each business into their individual profile in the eVA vendor database.

**Consider offering opportunities exclusively for first-time bidders.**

Nothing demonstrates ability to perform like a proven track record. Given the difficulty of developing a portfolio of prior experience on large contracts, the Commonwealth should consider designating certain low-risk projects to experienced firms that have a limited contracting track record with the Commonwealth. In a program like this, throughout the process, firms would be evaluated on a standard set of criteria. The results would be made available to other firms and displayed in a transparent location.

## Strategic Sourcing Model

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## Spend Analysis

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1. **Gross Spend** – identifies total discretionary dollars to be spent in a budget year
2. **Existing Contracts & OEM** – identifies the procurement of recurring commodities or services through existing contracts and/or original equipment manufacturers (OEM). Attention is given to contracts that expire and will be renewed during the budget year to determine where MWBE suppliers can be introduced into the process,
3. **Available Spend** – identifies the amount remaining after *Existing Contracts & OEM* are removed from *Gross Spend*.
4. **Non-recurring Items** – those commodities and services that are not purchased on an ongoing annual basis but are one time of on a cycle greater than one year.
5. **Available Recurring Spend** – identifies those commodities and services that are purchased on an ongoing and recurring basis during the budget year.
6. **Recurring with no identified MWBEs** – consists of those commodities and services that the company purchases on an ongoing basis for which no MWBEs have been identified or no MWBE has successfully competed for a contract. Excluded are OEM and long-term contracts.
7. **Potential MWBE Spend** – identifies commodity or service spend opportunities available for which the agency had identified qualified MWBEs. This identifies the total amount that would be spent if they competed successfully for all of the contracts for which they are qualified. Excluded are OEM and long-term contracts.

## MWBE Spend Segmentation Example

Complexity	HIGH	<b>Bottleneck</b> <i>One or very few sources</i> <i>Highly specialized products or services</i> <i>Fragmented buy-side marketplace</i>		<b>Strategic</b> <i>Suppliers offer unique capabilities</i> <i>Price is not the primary element of TCO</i> <i>Impact on business is critical</i>	
		Research Equipment		Research Supplies	Emergency Generators
		High-end Computers		Professional Services	GPS
		Coal		Capital Research Equipment	Field Turf
		OEM Service Agreements		Software Systems	Artwork (Loan or Purchase)
		Application Developers		Green Roof	Brand & Marketing
		Artwork (Loan or Purchase)		Elevators	Cage Washers
		<b>Tactical/Routine</b> <i>Many sources</i> <i>Little product differentiation</i> <i>Transaction costs high relative to spend</i>		<b>Leverage</b> <i>Many sources</i> <i>Many product or service alternatives</i> <i>Supply chain influenced by economies of scale</i>	
		Office Supplies & Furniture	Equipment Rental	Office Supplies & Furniture	Concrete & Asphalt
		Bottled Water	Glass Supplies & Services	Paper	MRO Supplies
		Promotional Items	Furnish & Delivery	Computers	Electrical Parts
		Catering	Lab Supplies	High-end Computers	
		MRO Supplies	Med/ Surg Kits	Vehicles	
		Grounds Maintenance			
LOW		Strategic Value, Spend		HIGH	

# Supplier Development Decision Matrix

Investment & Commitment  
(Time, People, Financial, etc.)

Example Categories	Tactical Supplier	Leverage Supplier	Bottleneck Supplier	Strategic Supplier
Economic Development			<ul style="list-style-type: none"> <li>Financial Investments</li> <li>Venture Capital</li> <li>Mergers &amp; Acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>Financial Investments</li> <li>Venture Capital</li> <li>Mergers &amp; Acquisitions</li> </ul>
Business Development		<ul style="list-style-type: none"> <li>Strategic Alliances</li> <li>2<sup>nd</sup> Tier Special Projects</li> </ul>	<ul style="list-style-type: none"> <li>Joint Ventures</li> <li>Strategic Alliances</li> <li>2<sup>nd</sup> Tier Special Projects</li> </ul>	<ul style="list-style-type: none"> <li>Joint Ventures</li> <li>Strategic Alliances</li> <li>2<sup>nd</sup> Tier Special Projects</li> </ul>
Technical Support		<ul style="list-style-type: none"> <li>VBA</li> <li>VASCUPP</li> <li>Other Internal Programs</li> </ul>	<ul style="list-style-type: none"> <li>VBA</li> <li>VASCUPP</li> <li>Other Internal Programs</li> </ul>	<ul style="list-style-type: none"> <li>VBA</li> <li>VASCUPP</li> <li>Other Internal Programs</li> </ul>
Operational Support		<ul style="list-style-type: none"> <li>VBA</li> <li>FastTrac Next Level</li> <li>MWBE Exec Ed Programs</li> <li>Consultants (subject matter experts)</li> </ul>	<ul style="list-style-type: none"> <li>VBA</li> <li>FastTrac Next Level</li> <li>MWBE Exec Ed Programs</li> <li>Consultants (subject matter experts)</li> </ul>	<ul style="list-style-type: none"> <li>VBA</li> <li>FastTrac Next Level</li> <li>MWBE Exec Ed Programs</li> <li>Consultants (subject matter experts)</li> </ul>
Supplier Performance Management	<ul style="list-style-type: none"> <li>Baldrige</li> <li>Managed Scorecard</li> </ul>	<ul style="list-style-type: none"> <li>Baldrige</li> <li>Managed Scorecard</li> </ul>	<ul style="list-style-type: none"> <li>Baldrige</li> <li>Managed Scorecard</li> </ul>	<ul style="list-style-type: none"> <li>Baldrige</li> <li>Managed Scorecard</li> </ul>
Mentoring	<ul style="list-style-type: none"> <li>Mentoring Relationships</li> <li>Workshops</li> </ul>	<ul style="list-style-type: none"> <li>Mentoring Relationships</li> <li>Workshops</li> </ul>	<ul style="list-style-type: none"> <li>Mentoring Relationships</li> <li>Workshops</li> </ul>	<ul style="list-style-type: none"> <li>Mentoring Relationships</li> <li>Workshops</li> </ul>



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## Endnotes

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<sup>i</sup> Robert Samuelson's *Newsweek* column is the source of the direct quotation. Two journalists, one in the *New York Times* and one in *Newsweek* published pieces that expound on the conclusions reached by John Haltiwanger, Ron Jarmin, and Javier Miranda in "Who Creates Jobs? Small vs. Large vs. Young," No. 16300 in the National Bureau of Economic Research (NBER) Working Paper Series, accessible at <http://www.nber.org/papers/w16300>.

<sup>ii</sup> Federal Reserve Chairman Ben Bernanke also cited NBER Working Paper No. 16300 in a speech at a conference of Federal Reserve economists in July 2010. Accessible at [http://www.federalreserve.gov/events/conferences/2010/sbc/downloads/sbc\\_bernanke.pdf](http://www.federalreserve.gov/events/conferences/2010/sbc/downloads/sbc_bernanke.pdf).

<sup>iii</sup> All figures are derived from the results of the U.S. Census Bureau's Survey of Business Owners, which is conducted every five years. The last five years for which data is available is 2002-2007. All associated figures and spreadsheets are available at <http://www.census.gov/econ/sbo/>.

<sup>iv</sup> The quotation and following conclusions are derived from the written testimony as prepared by David A. Hinson, National Director of the Minority Business Development Agency at the U.S. Department of Commerce, before the U.S. Senate Committee on Small Business & Entrepreneurship in April 2010. Accessible at <http://www.ogc.doc.gov/ogc/legreg/testimon/111s/Hinson041510.pdf>.

<sup>v</sup> Sharma, Raj, Timothy Laseter, and Russ Witt. "Making a Stronger Case for Supplier Diversity." 93rd Annual International Supply Management Conference, May 2008. p.3

<sup>vi</sup> The Hackett Group. "Supplier Diversity Does Not Drive Increased Costs," August 17, 2006. [http://www.thehackettgroup.com/about/alerts/alerts\\_2006/alert\\_08172006.jsp](http://www.thehackettgroup.com/about/alerts/alerts_2006/alert_08172006.jsp)

<sup>vii</sup> <http://www.dgs.virginia.gov/LinkClick.aspx?fileticket=SPXm4A7jufQ%03d&tabid=390>

<sup>viii</sup> <http://www.virginiadot.org/business/resources/prequalified-list.pdf>

<sup>ix</sup> Caveat: The difference between SWaM-certified firms and eVA-registered firms gives us a reasonable estimate of the level of firm participation. As of November 12, 2010, 4,892 certified firms had yet to register in eVA (28% of the total certified firms). If not registered in Virginia's procurement portal, then they are likely not responding to solicitations, and therefore, are not being awarded contracts. Why firms do this is unclear. Many firms choose not to do business with the Commonwealth and become certified to do business with the private sector.

<sup>x</sup> p.35